

Message Text

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USIE-00 INRE-00 AGR-05 CEA-01 CIAE-00 COME-00 DODE-00

EB-07 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04 NSAE-00

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FM USMISSION EC BRUSSELS

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INFO ALL EC CAPITALS PRIORITY 1586

AMEMBASSY JAKARTA

AMEMBASSY NEW DELHI

C O N F I D E N T I A L SECTION 1 OF 2 EC BRUSSELS 728

E.O. 11652: GDS

TAGS: ETRD, MTN, EEC, EAGR

SUBJECT: EC TROPICAL PRODUCTS OFFER

REF: (A) EC BRUSSELS 573, (B) MTN GENEVA 201 (NOTAL)

1. SUMMARY: THE MISSION HAS OBTAINED AND FORWARDED TO WASHINGTON THE EC COMMISSION'S TROPICAL PRODUCTS PROPOSAL. WHILE THE GSP CONCESSIONS ON TOBACCO LOOM LARGEST, THERE ARE SOME 40 CONCESSIONS IN TOTAL ON PRODUCTS OF WHICH THE US IS A LEADING NON-PREFERENTIAL SUPPLIER. A COMMISSION OFFICIAL HAS ARGUED THAT THE CONCESSIONS PROPOSED ON HIGHER PRICED TOBACCO IS NECESSITATED BY THE UNREALISTIC VALUATION OF THE BRITISH POUND FOR EC CUSTOMS PURPOSES. THE COMMISSION'S TROPICAL PRODUCTS PROPOSAL IS RECEIVING ITS FIRST FULL DISCUSSION BY THE ART. 113 COMMITTEE JAN. 23. END SUMMARY.

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2. TRAN, THE DIVISION CHIEF WITHIN THE COMMISSION WHO CLAIMS PRIMARY RESPONSIBILITY FOR THE COMMISSION'S TROPICAL PRODUCTS PROPOSAL, HAS GIVEN US A COPY OF THAT PROPOSAL, INCLUDING THE ANNEX LISTING SPECIFIC CONCESSIONS. FEKETEKUTY OF STR HAS BEEN GIVEN A COPY OF THE PROPOSAL TO CARRY TO WASHINGTON TO DISTRIBUTE TO INTERESTED AGENCIES. THE MISSION IS SENDING A COPY OF THE CONCESSION LIST PLUS ITS INFORMAL TRANSLATION OF THE MAJOR PART OF THE TEXT OF THE PROPOSAL TO THE MTN DELEGATION IN GENEVA. WHILE TOBACCO CONTINUES TO BE THE MOST SIGNIFICANT CONCESSION PROPOSED FROM THE STANDPOINT OF US INTERESTS, WE HAVE NOTED APPROXIMATELY 40 CONCESSIONS PROPOSED ON PRODUCTS OF WHICH THE US IS THE FIRST OR SECOND NON-PREFERENTIAL SUPPLIER TO THE COMMUNITY. THESE CONCESSIONS INCLUDE A NUMBER OF FISHERIES PRODUCTS, DRIED BEANS AND PEAS, ROASTED COFFEE, VARIOUS VEGETABLE OILS, FRUIT PRODUCTS, COFFEE SUBSTITUTES, A SERIES OF PROCESSED SPICES, FATTY ALCOHOLS AND GLYCEROL, CERTAIN CONFECTIONARY PRODUCTS, COCOA POWDER, PRESERVED ASPARAGUS AND PINEAPPLE, A NUMBER OF FRUIT JUICES (NOT INCLUDING ORANGE JUICE), SAUCES, AND CERTAIN ALCOHOLIC BEVERAGES.

3. TRAN'S PURPOSE IN INVITING US TO TALK WITH HIM (AND RECEIVE HIS DOCUMENT) WAS TO ATTEMPT TO PERSUADE US THAT THE US SHOULD NOT HAVE MUCH CONCERN OVER THE PROPOSED TOBACCO CONCESSIONS. HE HAD THREE MAIN POINTS TO MAKE:

A. IN EFFECT THE GSP TREATMENT OF TOBACCO WITH A VALUE LESS THAN 280 UNITS OF ACCOUNT (UA) PER 100 KILOS WOULD BE WORSENERED--I.E., THE MARGIN OF PREFERENCE WOULD BE REDUCED--IF THE COMMISSION'S PROPOSAL IS ACCEPTED. THIS WOULD, AS NOTED IN REFTEL A, SET MINIMUM DUTY OF 19 UNITS OF ACCOUNT PER 100 KILOS. SINCE THE EXISTING GSP RATE HAS A MAXIMUM OF 15 UA, THE EFFECTIVE GSP DUTY WOULD BE HIGHER IN ALL INSTANCES DESPITE THE IMPRESSION CREATED BY THE REDUCTION IN THE AD VALOREM RATE FROM 10.5 TO 8 PERCENT.

B. AS FAR AS THE CASE ON HIGHER PRICED TOBACCO IS CONCERNED, TRAN ARGUED THAT GIVEN THE MAXIMUM MFN DUTY OF 45 UA THE MARGIN OF PREFERENCE GRANTED LDC SUPPLIERS BEGINS TO DIMINISH AT AROUND 321 UA AND DISAPPEARS AT 563 UA. WE RESPONDED THAT THIS WAS TRUE, BUT THAT THERE REMAINED THE FACT THAT OVER THE RANGE FROM 280 TO 321 UA THERE IS A LARGE MARGIN OF PREFERENCE.

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REFERENCE AND THAT THE MARGIN BETWEEN 321 AND 563 UA IS A NEW ONE WHICH US SUPPLIERS HAVE NOT HAD TO FACE UP TO NOW. C. TRAN'S REPOSTE TO HIS IS THAT IN LARGE PART THE REQUIREMENT FOR A GSP CASE FOR INDIAN PRODUCED VIRGINIA-TYPE TOBACCO WITH A VALUE OF 280 UA AND ABOVE IS TRANSITORY AND THAT SHIPMENTS ABOVE THAT LEVEL WILL, IN THE LONG RUN, BE MINOR. INDIAN TOBACCO IS BEGINNING TO BE VALUED OVER 280 UA--TRAN SAID ABOUT 12,000 TONS HAD BEEN IMPORTED AT THAT VALUE OR

ABOVE OVER THE LAST YEAR--BECAUSE OF THE FAILURE OF THE COMMUNITY TO CHANGE THE POUND STERLING'S RELATIONSHIP TO THE UNIT OF ACCOUNT FOR CUSTOMS PURPOSES THE RELATIONSHIP IS MAINTAINED AT PRE-SMITHSONIAN EXCHANGE RATE RELATIONSHIP BETWEEN THE POUND AND THE UA. SINCE 1971 THE POUND HAS DEVALUED SUBSTANTIALLY, BUT THIS HAS NOT YET BEEN REFLECTED IN COMMUNITY CUSTOMS REGULATIONS. THUS, A GROWING AMOUNT OF TOBACCO IMPORTED FROM INDIA INTO THE UK IS LANDING ABOVE THE VALUE BRACKET. TRAN SAID THAT BY SOMETIME IN 1977 A MORE REALISTIC NATIONAL CURRENCY/UA RELATIONSHIP SHOULD BE ESTABLISHED. ONCE THAT HAPPENED, HE THOUGHT THAT INDIAN SHIPMENTS FALLING INTO THE HIGHER PRICED CATEGORY WOULD NOT AMOUNT TO MORE THAN 8,000-15,000 TONS.

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C O N F I D E N T I A L SECTION 2 OF 2 EC BRUSSELS 728

4. COMMENT: ON THE BASIS OF SUBSEQUENT CHECKS WITH COMMUNITY CUSTOMS OFFICIALS, TRAN'S ARGUMENT HAS A POINT IN THAT THE CUSTOMS VALUES OF MEMBER STATE CURRENCIES HAVE NOT BEEN ADJUSTED. HOWEVER, JUDGING FROM THE SLOW PROGRESS IN ADJUSTING

THE NATIONAL CURRENCIES/UA RELATIONSHIP, TRAN'S FORECAST OF A CORRECTION BY 1977 SEEMS OPTIMISTIC. FURTHERMORE, IT APPEARS TO US THAT WHEN THE CORRECTION TAKES PLACE THERE WOULD BE AN ADVERSE EFFECT ON US TOBACCO EXPORTS TO THE UK. END COMMENT.

5. TRAN GAVE US A GENERAL SUMMARY OF OTHER ELEMENTS IN THE PACKAGE PROPOSED BY THE COMMISSION, WHICH, IN GENERAL, ADDED LITTLE TO HIS DISCUSSION REPORTED IN REF B. HE DID ADD ONE POINT ON THE PRESSURES FOR EXPANDED PRODUCT COVERAGE OF THE EC'S GSP TOBACCO CONCESSION--HE SAID THAT THE GERMANDS HAD ADDED THEIR VOICE TO THE DUTCH IN THIS REGARD, MAINLY BECAUSE THEY WANT CHEAPER TOBACCO. HE FELT THAT IT WOULD BE POSSIBLE TO USE THE LOG-ROLLING ISSUE OF HOW TO DIVIDE
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THE INCREASED QUOTA ON LOWER PRICED TOBACCO AMONG MEMBER STATES AS A WAY TO GAIN AGREEMENT TO THE PROPOSAL.

6. TRAN SAID THAT HE WAS ATTENDING THE ART. 113 COMMITTEE MEETING OF JANUARY 23. HE HAD NOT PARTICIPATED IN THE TWO EARLIER DISCUSSIONS IN THE ARTICLE 113 COMMITTEE, BUT NOTED THAT THIS WAS TO BE THE FIRST FULL DISCUSSION OF THE PROPOSAL. HE SAID HE WOULD BE GLAD TO BRIEF US ON THE DEVELOPMENTS IN THE MEETING AND KEEP US POSTED AS THE PROPOSAL ADVANCES (HE DOES NOT EXPECT THAT IT WILL BE POSSIBLE TO GET FINAL COMMUNITY AGREEMENT ON THE PROPOSAL UNTIL AFTER MARCH 1). HE ASKED THAT HE BE GIVEN NOTICE OF THE US TROPICAL PRODUCTS PROPOSAL IF POSSIBLE TWO OR THREE DAYS BEFORE ITS PRESENTATION IN GENEVA.
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